

Message Text

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ACTION NEA-11

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 AGRE-00 HEW-04 HUD-01 OES-07 CEQ-01
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FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 7150
INFO AMEMBASSY PARIS

C O N F I D E N T I A L ISLAMABAD 4704

PARIS FOR OECD

E.O. 11652: GDS
TAGS: EFIN, EAID, PK
SUBJECT: US POSTURE AT CONSORTIUM MEETING

REF: (A) ISLAMABAD 4627 (B) ISLAMABAD 4232

1. THE TACTICS AT THE JUNE 1-2 CONSORTIUM MEETING WILL DEPEND
IN PART ON DEVELOPMENTS BETWEEN NOW AND THEN AND ON THE ACTUAL
COURSE OF THE MEETING, BUT WE BELIEVE OUR FUNDAMENTAL APPROACH
SHOULD BE TO BROADEN THE FOCUS TO PAKISTAN'S MEDIUM-TERM FINAN-
CIAL REQUIREMENTS AND TO TREAT DEBT AS ONE ELEMENT OF THEM. WHILE
PAKISTAN DEBT SERVICE IS LARGE AND CONSUMES A SUBSTANTIAL PART OF
ITS EXTERNAL RECEIPTS, WITH PROPER POLICIES AT HOME AND WITH
THE FINANCIAL SUPPORT OF THE DONOR COMMUNITY (INCLUDING DEBT
RESCHEDULING FOR THOSE WHO PREFER TO GIVE A PART OF THEIR ASSIS-
TANCE IN THIS MANNER), THE DEBT ISSUE NEED NOT BECOME THE
BETE NOIRE TO BE DEALT WITH IN ISOLATION.

2. WE BELIEVE THIS APPROACH FITS WITH THE GENERAL US POSITION
ON DEBT, WITH THE REALITIES OF THE PAKISTAN SCENE (INCLUD-
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ING WHAT APPEARS TO BE ITS ABILITY TO PAY ITS DEBT FOR
A WHILE), WITH THE PROBABLE POSITIONS AT THE MEETING OF
SEVERAL OTHER DONORS, AND WITH THE DESIRABILITY OF A NON-
CONFRONTATIONAL APPROACH.

3. THERE SEEMS TO BE GENERAL AGREEMENT IN WASHINGTON
(WHICH WE CERTAINLY SHARE) THAT THE US SHOULD NOT GET OUT

IN FRONT AT THE CONSORTIUM MEETING. WE THINK THE ABOVE APPROACH GIVES US A GOOD OPPORTUNITY TO FADE INTO THE PACK AND STILL DELAY UNDESIRABLE ACTIONS. EXPRESSIONS BY SEVERAL DONOR COUNTRY SPOKESMEN AT THE INFORMAL MEETING ON PAKISTAN DEBT ON MAY 4 IN PARIS (PARIS 14557) AND AT THE PRE-CONSORTIUM MEETING IN ISLAMABAD (ISLAMABAD 4627) ON MAY 8 SHOWED WIDESPREAD DESIRE TO KNOW MORE ABOUT THE CURRENT PAKISTANI SITUATION (INCLUDING HOW MUCH DEBT WE ARE TALKING ABOUT) AND WHAT REFORMS PAKISTAN PLANS AS A PRE-CONDITION FOR ACTION. PRESUMABLY THESE WILL BE REPEATED AND EVEN SHARPENED AT THE CONSORTIUM MEETING, AND THE US SHOULD BE ABLE TO POSITION ITSELF WITHIN THE CALLS OF OTHER DONORS FOR ADDITIONAL INFORMATION, FOR THE PASSAGE OF TIME, AND FOR A BETTER EXPLANATION OF WHAT REFORMS ARE CONTEMPLATED TO BRING POLICY INTO LINE WITH WORLD BANK RECOMMENDATIONS. WE CAN CERTAINLY ARGUE THAT THE PRESENT PAKISTANI SITUATION IS NOT SO CRITICAL AS TO REQUIRE THE CLOUD OVER FUTURE PAKISTANI CREDITWORTHINESS THAT YET ANOTHER GENERALIZED DEBT RESCHEDULING WOULD BRING ABOUT. WE CAN ARGUE FOR A CALM LOOK AT THE SITUATION WHILE A MUTUALLY-AGREED PROGRAM BETWEEN PAKISTAN AND THE DONOR COMMUNITY (INCLUDING IRAN AND ANY OTHER DONORS THAT ARE INTERESTED IN PARTICIPATING) FOR THE TRANSFORMATION OF PAKISTAN'S ECONOMY ALONG THE LINES RECOMMENDED BY THE APRIL 7 WORLD BANK IS WORKED OUT.

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4. THE US SHOULD ADMIT FRANKLY THE ESPECIALLY TENTATIVE NATURE OF ANY INDICATION, HOWEVER GENERAL, IT UNDERTAKES REGARDING NEW AID. IT SHOULD COUPLE GENUINE DESIRE TO BE FORTHCOMING IN ANY CONSTRUCTIVE PROGRAM AGREED TO BETWEEN PAKISTAN AND THE DONOR COMMUNITY WITH THE RESOLUTION OF CERTAIN WELL-KNOWN PROBLEMS OF THE MOMENT.

5. FOOD AID IS NOT AFFECTED BY THE ABOVE CAVEAT, AND WE HAVE SOME THOUGHTS ON THE LINKAGE BETWEEN FOOD AID AND AGRICULTURAL DEVELOPMENT WE PLAN TO SUBMIT BY SEPTEMBER.

6. WE ALSO BELIEVE THE US SHOULD USE THIS OCCASION TO FLOAT THE PROPOSAL TO INVOLVE THE CONSORTIUM MORE ACTIVELY IN THE NARCOTICS CONTROL PROGRAM IN PAKISTAN. ANOTHER SEPTEMBER WILL COVER THIS ASPECT OF THE CONSORTIUM MEETING.
HUMMEL

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